

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF BLUE GRASS)	
RURAL ELECTRIC COOPERATIVE)	
CORPORATION AND FOX CREEK)	
RURAL ELECTRIC COOPERATIVE)	CASE NO. 97-424
CORPORATION FOR AN ORDER)	
APPROVING CONSOLIDATION OF)	
THE TWO (2) NAMED RURAL)	
ELECTRIC COOPERATIVES)	

O R D E R

IT IS ORDERED that Blue Grass Rural Electric Cooperative Corporation and Fox Creek Rural Electric Cooperative Corporation ("Blue Grass and Fox Creek") shall file the original and 6 copies of the following information with the Commission no later than November 19, 1997, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible.

1. Provide the following information separately for Blue Grass and Fox Creek:
 - a. For calendar years 1995, 1996, and the 12 months ending August 31, 1997:
 - (1) The net margins achieved.
 - (2) The Times Interest Earned Ratios ("TIER").

(3) The ratio of Equity to Total Capital, excluding Generating and Transmission Capital Credits.

(4) The amounts of capital credits retired, separating general retirements from retirements to deceased members' estates.

b. The level of liquid cash as of August 31, 1997.

c. The number of members served as of August 31, 1997.

d. A schedule of the outstanding debt as of August 31, 1997, showing the name of each lender, the outstanding balance for each loan, the interest rate in effect for each loan, and whether the interest rate is fixed or variable.

e. The expiration date of the power requirements contract with East Kentucky Power Cooperative, Inc. ("East Kentucky").

f. The total cost for the September 23, 1997 special membership meeting.

g. A description of the actions taken to provide information to the membership concerning the consolidation.

2. Provide one map showing the Blue Grass and Fox Creek service territories. Indicate the total miles of continuous territory between the cooperatives.

3. Indicate when Blue Grass and Fox Creek last had a general rate case and the TIER authorized.

4. Provide charts showing the respective organizational structures for Blue Grass and Fox Creek as of August 31, 1997 and include the names of the individuals serving in each position.

5. Provide a chart showing the proposed organizational structure of Blue Grass Energy Cooperative Corporation ("Blue Grass Energy") and include the names of the individuals anticipated to be serving in each position. Indicate when Blue Grass and Fox Creek expect this structure to be in effect.

6. Provide copies of the Articles of Incorporation and the By-laws for Blue Grass Energy. If these documents have not been finalized, indicate when they will be finalized.

7. The Consolidation Agreement, paragraph 6, states that Blue Grass Energy's board of directors will initially have 14 members, but during a 4-year transition period the total of all votes will be 11.

a. Explain the mechanism that Blue Grass Energy will employ to allocate Fox Creek's 4 votes among 7 board members.

b. Explain why Blue Grass and Fox Creek decided that a 14 member board with 11 votes was a reasonable approach to use for the initial Blue Grass Energy board of directors.

c. Do Blue Grass and Fox Creek expect that after the 4-year transition period Blue Grass Energy's board of directors will have no more than 11 members?

(1) If yes, explain how Blue Grass and Fox Creek determined that this was a reasonable board size.

(2) If no, indicate when and how the final number of board members for Blue Grass Energy will be decided.

8. The Consolidation Agreement, paragraph 15, states that an objective of Blue Grass Energy will be to refund capital credits to Fox Creek members in such a manner that the normal rotation of capital credits will be the same for all members of Blue Grass Energy at the end of a 2-year period from the effective date of consolidation.

a. Indicate the methodologies currently used by Blue Grass and Fox Creek to make general retirements of capital credits and include the rotation cycles used by each. Also indicate the methodology and rotation cycle to be used by Blue Grass Energy.

b. What is the estimated amount of capital credits that would have to be paid to Fox Creek members to achieve this stated objective? Include the calculations used to determine this amount.

c. Explain how Blue Grass Energy plans to fund this general retirement to Fox Creek members. Will funding be limited to Fox Creek sources or will all members of the consolidated cooperative provide the funding?

9. The Consolidation Study sponsored by Mark A. Harper, Exhibit C to the Application, was performed in late 1996 and the report is dated February 1997. The study's summary indicates that the analyses contained therein were based on the 1993-2003 financial forecasts which were the most recent available.

a. Why was it reasonable to base a consolidation study on financial forecasts which, as of the report date, were already 4 years old?

b. Did Blue Grass or Fox Creek consider preparing more current financial forecasts for this study? If yes, explain why more current forecasts were not performed.

c. Did the 1993-2003 financial forecasts reflect the impacts of East Kentucky's most recent general rate reduction?

d. Would the East Kentucky rate reduction have impacted the financial forecasts? Explain the response.

10. The Consolidation Study, tab 2, pages 3 and 4, compares differences between Blue Grass and Fox Creek in the areas of support services, outside professional services, and employee benefits. For each area shown on pages 3 and 4 where there are differences between Blue Grass and Fox Creek, indicate how these differences are expected to be resolved under Blue Grass Energy.

11. Refer to the Consolidation Study, tab 4.

a. Were the amounts used for 1995 actual or taken from the 1993-2003 financial forecasts?

b. Explain how the inflation rate used in the 2000 and 2005 calculations was determined.

c. Explain why the potential savings in 2005 are lower than those calculated for 2000.

12. Included in the Consolidation Study are the results from 9 scenario analyses. Each scenario included a computation of the savings from consolidation and a utility plant reduction calculation.

a. Explain what the utility plant reduction calculation is intended to represent.

b. Describe the types of utility plant reductions Blue Grass Energy should reasonably expect as a result of consolidation.

13. The Consolidation Study estimated total savings between \$10 million and \$11 million. Describe the primary factors or circumstances which produce this level of expected savings.

14. Refer to the testimony of Bob Kincer.

a. Provide copies of the studies prepared by the National Rural Cooperative Finance Corporation and the Rural Utilities Service.

b. Explain why the Blue Grass and Fox Creek boards of directors thought both studies were needed.

c. Describe the process used by the two boards of directors in selecting Mr. Harper to perform the independent analysis.

d. What position will Mr. Kincer hold with Blue Grass Energy?

15. Will the consolidation impact Blue Grass's or Fox Creek's relationship with East Kentucky or any of the other member cooperatives of East Kentucky? Explain the response.

a. What changes will the consolidation have on the board of directors of East Kentucky and when will these changes become effective?

16. The Consolidation Agreement, paragraph 14, states that an objective of the consolidation is to achieve rate parity for all members within five years. Does Blue

Grass Energy intend to perform a cost-of-service study to use as a basis for designing new rates?

a. If yes, when will it be performed and by whom?

b. If no, explain why one will not to be conducted and how rates for the consolidated cooperative will be determined.

17. Provide a side-by-side comparison of the existing rates of Fox Creek and Blue Grass for each customer class currently served. Also include the East Kentucky rate that serves the tariff. (For example, East Kentucky's tariff B, C, or E.)

Done at Frankfort, Kentucky, this 11th day of November, 1997.

PUBLIC SERVICE COMMISSION



For the Commission

ATTEST:



Executive Director